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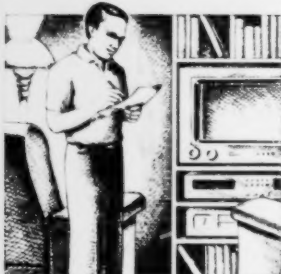
This booklet provides some practical guidelines for determining total insurance needs, examining options, and comparing costs. It discusses how to fit insurance costs into an overall financial plan, the necessity of adequate liability coverage, and the importance of keeping policies up to date. The next four sections highlight the basic types of insurance. The section on health insurance introduces conventional and prepaid plans, health maintenance organizations, and government programs. Information on disability insurance and tips on cutting health care costs are included. The section on life insurance describes the various types of policies--term, whole life, and universal. It shows how to read a policy, select a beneficiary, and shop for the best value. The section on auto insurance discusses the kinds of coverage offered in a standard policy, why auto insurance rates vary, and comparison shopping. The section on homeowners and tenants insurance tells how to take a household inventory and includes descriptions of the features found in a basic policy and the factors affecting premium costs. Other sections focus on other types of insurance, shopping for insurance, how to handle a claim, and handling insurance complaints. A glossary and a listing of suggested resources are appended.
(YLB)

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Your Insurance Dollar

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FINANCIAL
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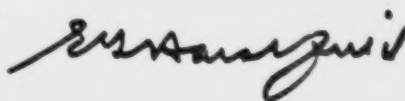
To The Reader

The sponsor of this publication is Household Financial Services. Comprised of four core businesses—Household Bank, Household Commercial Financial Services, Household Finance Corporation and Alexander Hamilton Life Insurance Company—Household Financial Services is a member of the Household International family. Household International is one of America's largest companies, with a history dating back to 1878 and a reputation for soundness and excellence.

For over fifty years we have distributed consumer education materials prepared by the **Money Management Institute**, the educational arm of our Consumer Affairs Department. Why do we sponsor this type of program? Just as a good physician is interested in the physical well-being of individuals and families, we have a deep interest in their financial health.

MMI materials include booklets, filmstrips and pamphlets that explain and illustrate the most important elements of personal and family finance. Their content is based on continual research and experience, as well as consultation with specialists in education, business and government.

It is gratifying that these materials continue to be used so extensively by educators in high schools, colleges and universities...by extension workers...journalists, radio and TV commentators...by social workers...youth counselors...the clergy...by leaders in business, industry, government and the community...as well as by individuals and families. This acceptance encourages our continued support of a program which has as its goal the development of informed, educated consumers, well able to manage and protect their economic interests.



E. G. Harshfield
**President and
Chief Executive Officer
Household Financial Services**

Introduction

Even the best laid plans can go awry, which is why it is so important to plan for the unexpected. An adequate insurance program will protect you and family members against financial losses resulting from illness, disability or death, as well as from accidents, fire or theft. In fact, insurance is one of the most important purchases you will ever make.

YOUR INSURANCE DOLLAR will familiarize you with the four basic kinds—health, life, automobile, and homeowners—and help you to determine your insurance needs. Also provided is information on how to select an insurance company and what to do when you have a claim.

While other household purchases may provide more enjoyment, when you consider the consequences of being uninsured, the money is well spent. After all, you have a lot to lose!

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Insurance and Financial Security

Suddenly, without warning...a serious illness strikes...a fire sweeps through your home...your car is stolen. Are you protected against such financial disasters? Without protection, your savings could be wiped out, leaving you and other family members in debt for years to come. You have worked hard for what you have, so protect yourself against possible losses.

Insurance as a Partnership

Insurance is like a partnership based on the concept of shared risk. Your insurance premium is pooled into a common fund along with thousands of other premiums. The insurance company then uses the money in the pool to cover the losses of individual policyholders. So while everyone pays a little, no one has to suffer the entire financial loss.

Insurance policies are available to cover a variety of financial risks such as:

- damage or loss of property due to fire, storm, theft or collision
- personal liability for injury to others or damage to their property
- loss of income due to death or disability
- medical expenses due to injury or illness

Ideally you never want to use your insurance, but should you suffer a loss, it is comforting to know you are covered. Choosing the proper amounts of insurance and suitable coverage can be confusing, however. The guidelines presented here are designed to give you an overview of the subject and to provide you with the information you need to obtain the best value for your insurance dollars.

Managing Your Risks

Everyone faces some kind of economic risk, but to different degrees. For example, the premature death of a

single person without dependents does not produce the same financial hardship as that of a primary wage earner with a spouse and small children.

One of the first steps in managing economic risks is to identify them—loss of income, property damage, major illness, etc. How would these affect your overall financial picture? Can you afford the loss of your automobile, for example? How much do you stand to lose? Once you know what the risks are, you can begin to deal with them.

There are four basic techniques used to limit and control financial risks:

- **Avoidance.** By not owning an automobile, for example, you do not risk having it stolen.
- **Reduction.** By installing smoke alarms in your home and using antitheft devices in your car, you reduce or limit your risk.
- **Retention.** By accepting a risk or part of it and paying for smaller losses out of your own pocket (through deductibles) you retain the risk.
- **Transfer.** By purchasing insurance, you transfer the risk of a loss to an insurance company.



Planning for Insurance Costs

What does financial planning have to do with buying insurance? A written financial plan not only tells you where your money is going each month, it can help you plan for periodic expenses like insurance premiums.

Your Financial Plan

To begin your planning, first total your income, then estimate your fixed and flexible expenses. *Fixed expenses* are those you have promised to pay on specific dates and in specific amounts, i.e., installment debts, rent and mortgage payments. Insurance premiums are also considered a fixed expense. *Flexible expenses* are paid in varying amounts and at different times. Examples of these include food, recreation and clothing.

If you are a first-time planner, refer to cancelled checks, bank statements and receipts to get a general idea of how much you spend each month on both fixed and flexible expenses. To figure periodic expenses, divide the annual amount needed into 12 monthly payments.*

After reviewing your income and expenses you may want to reevaluate your spending habits, especially if the latter exceed the former! Since insurance is so essential to your financial security, do not risk your future by making reductions here. Some general cost-cutting measures are provided, however, to help you spend your insurance dollars wisely.

Your Net Worth

A net worth statement—which is a financial inventory of all that you own (your assets) and all that you owe (your liabilities)—will help you to identify your insurance needs. Using the chart on page 5, estimate your net worth by first listing your financial resources. Start with those that can be readily converted into cash, such as money in

checking and savings accounts and in money market funds.

To determine the cash value of other assets, those not so easily converted to cash, you may need to do some checking in a major daily newspaper. For example, the real estate section can provide you with a general idea of housing costs; the financial section, the current value of your investments; and the automobile section, the estimated worth of your car. List the cash value of furniture and appliances at the actual price they would sell for today.

Next list your financial liabilities such as installment debts, student and automobile loans. Subtract your total liabilities from your total assets and you have your net worth.

Remember that it is not the probability of a loss occurring, but its total effect on your net worth which counts. For example, your home most likely represents a substantial portion of your total net worth.

Because its loss would be financially devastating, adequate insurance coverage is a must. The deductible amount on your auto insurance, however, would consume a much smaller percentage of your total net worth, making the loss more affordable. In addition, the use of deductibles lowers the overall cost of your insurance, enabling you to put the savings where you need them most.

Keeping Your Policies Current

To be sure you are adequately protected, review your insurance policies annually. Even a low rate of inflation can quietly erode their worth. Remember that the value of certain possessions—antiques, silver, jewelry, etc.—tend to fluctuate with the economy, leaving you either overinsured or underinsured.

Some insurance policies have inflation-guard protection which automatically increases your coverage

every year up to a specific limit. It may be worthwhile to inquire about such a clause, if you do not already have one. These clauses do not negate your need for an annual review, however. With new insurance products, changes in economic conditions and in your own finances, insurance is not an item which can be purchased and forgotten.

Liability Coverage

There is much in the news today about the liability crisis. Individuals are for the most part suing businesses, professionals and municipalities for damages—more frequently, for more reasons, and for much greater sums than ever before.

These parties are, as a result, paying very high premiums for liability insurance, and consumers therefore must pay higher prices, fees and taxes for their goods and services. In addition, because some insurance companies are either refusing to provide liability coverage or pricing it out of the market, the production of certain products (vaccines, for example) has ceased. Some cities have had to close playground facilities, certain schools have discontinued sports programs, and some physicians in high-risk specialties have given up their practices.

The number of individuals being sued for huge sums is on the increase. Without insurance protection, a single judgment against you could bring financial ruin. Fortunately this protection is readily available, in an *umbrella liability policy*. It can increase your coverage to \$1 million or more and is available at reasonable prices. See page 27 for more information.

*For additional information on setting up an overall spending and savings plan, see the MMI booklet, YOUR FINANCIAL PLAN, listed on page 36.

YOUR NET WORTH STATEMENT

WHAT YOU OWN

DATE _____

Cash in checking accounts	\$	
Cash in savings accounts		
Money market funds		
Certificates of deposit		
Current value of government savings bonds		
Cash surrender value of insurance policies		
Equity in pensions		
Equity in profit-sharing plans		
Company-sponsored savings plans		
Current value of annuities		
Loans owed you		
Retirement funds		
Individual Retirement Accounts (U.S.)		
Keogh Account (U.S.)		
Registered Retirement Savings Plan (Canada)		
Tax refunds due		
Cash value of ownership in business		
Market value of securities		
Bonds		
Stocks		
Mutual funds		
Investment trusts		
Cash value of personal properties		
Home and other real estate		
Automobile(s)		
Furniture		
Appliances		
Other (furs, jewelry, antiques, fine art, etc.)		
Other assets		

TOTAL ASSETS	\$	

WHAT YOU OWE

Mortgage debt (home and other real estate)		
Installment debts (balance due on loans outstanding)		
Automobile(s)		
Furniture and appliances		
Second mortgage		
Other		
Personal loans		
Current bills outstanding		
Medical and dental		
Credit cards (department store accounts, bank cards and gasoline cards)		

Taxes due		
Other liabilities		

TOTAL LIABILITIES	\$	
YOUR NET WORTH (ASSETS MINUS LIABILITIES)	\$	

Your Health Insurance Program

The following pages... describe the three classes of medical expense protection—conventional health insurance plans, prepaid plans and government insurance programs... enumerate the features of each... show how to evaluate them... help you develop your own health care protection plan... and provide cost-cutting tips.

Conventional Health Insurance

This section introduces you to the kinds of coverage offered by conventional health insurers. It outlines their similarities and differences, explains how policies are sold and offers buying guidelines. In addition, it provides basic information on disability income insurance.

Basic Plans

Conventional health insurance includes hospital/surgical/medical, major medical, comprehensive, catastrophic and dental plans.

Hospital/Surgical/Medical Coverage. These policies are usually bought as a unit, referred to as *basic coverage* or *basic protection*. Together they cover part or all of daily hospital room and board, routine nursing care, minor medical supplies, laboratory tests, x-rays, anesthesia billed by the hospital, operating room and drugs. Basic coverage also pays doctors for any services provided during your hospitalization and generally pays for local ambulance service. Some pay a set amount of money for specified surgical procedures, regardless of the surgeons' fees. Others are based on the reasonable and customary charges for the procedure performed.

Major Medical Plans. This policy takes up where basic coverage leaves off, protecting you against the much higher costs of treating prolonged illnesses and serious injuries. A major medical policy might, for example, pay all covered medical expenses in excess of \$1,000 in one year, up to the

policy's maximum benefit amount. It will in fact pay for most forms of health care that a physician prescribes—in or out of a hospital.

Major medical policies usually have three distinct features:

- *high maximum benefits*, perhaps as much as \$1 million. Some plans have no maximum.
- *a deductible provision*, meaning you must pay a certain amount out-of-pocket before the policy payments begin.
- *a coinsurance clause*, which requires you to pay a percentage of the medical expenses yourself, over and above the deductible. Typically this is 20 percent.

Catastrophic Plans. Catastrophic medical expenses—resulting from such conditions as open-heart surgery, some types of cancer, prolonged mental illness or kidney dialysis—can be covered also, possibly through a major medical policy with a high maximum. Or you could supplement major medical with a catastrophic policy. Once you have paid a certain amount of your expenses, catastrophic plans usually pay all remaining expenses up to the stated limit.

Comprehensive Medical Expense Insurance. This combines basic coverage with a major medical expense plan in a big package policy. You might have to pay both a deductible and a small percentage of all bills.

Dental Insurance. These plans vary greatly, but nonscheduled plans pay 80 percent or more of the costs of emergency treatment and basic dental health care: examinations, x-rays, cleanings, fillings and extractions. Other plans have a schedule of services similar to surgical schedules, which list specific procedures and the reimbursement amount allowed. Inlays, root canals, periodontic care, oral surgery and orthodontia are often covered but within limits. The common

method of reimbursement is on a "customary and reasonable" basis—i.e., the going rate in your area for the treatment. There is usually a maximum benefit allowed each year.

Providers of Conventional Health Insurance

Conventional health insurance protection is provided by *commercial insurance companies*, which often offer several other types of coverage as well; *independent organizations* such as fraternal and professional groups; and *Blue Cross and Blue Shield*. The latter is a nonprofit nationwide federation of locally governed, independent corporations, each one operating under state law and offering one or more plans, mostly through employee groups. Blue Cross was established primarily to cover hospital expenses; Blue Shield to cover physicians' services.

All basic hospital policies express benefits in terms of days. Commercial insurers use the *fixed dollar* system of payments, paying a specified dollar amount for each covered service, either to the patient or the hospital, according to a predetermined schedule of benefits. If the hospital and doctors charge more, the policyholder pays the difference.

Unlike commercial insurance companies, Blue Cross plans traditionally have provided *service benefits*. They pay the costs of a semiprivate room and nursing services in full, for example, for a specified number of days, instead of paying a predetermined amount toward the costs of each. Hospitals customarily bill Blue Cross directly for services rendered to subscribers. Blue Shield sometimes pays doctors directly, while in other cases the policyholder pays and is later reimbursed.

Rates depend on the particular plan you subscribe to, the level of coverage you choose (or your employer chooses), and whether you take individual or family coverage.



Group and Individual Insurance Plans

Health insurance is sold to both individuals and groups—the latter including employees of large companies and government agencies and members of independent associations. Group insurance accounts for 85-90 percent of the insurance sold in the U.S. Although these are the most popular, not all group plans provide the kinds of coverage you need and preexisting conditions may not be covered.

Here are some reasons for the popularity of group plans:

- Costs are from 15 to 40 percent less than the same coverage bought on an individual basis, because administrative costs are lower and employers often pay at least part of the premiums.
- Coverage typically is more comprehensive, because of fewer exclusions and limitations.

- Physical examinations and detailed statements on your physical condition are not generally a precondition for insurability.
- Premiums are often deducted from your paycheck.
- Coverage cannot be cut off, regardless of the number of claims made.

If you leave the group, you can usually convert your group coverage to an individual policy at a higher rate, but you will probably receive less coverage.

Individual or family policies cost more than group policies, but can be more precisely tailored to individual needs. In addition, they can provide vital supplementary coverage for people whose group insurance falls short.

Prepaid Plans

Prepaid health care plans—Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs) are the major alternatives to conventional health insurance.

Health Maintenance Organizations

A *Health Maintenance Organization* is an organization comprised of a group of hospitals, doctors and other health care personnel who have joined together to provide members with prepaid medical care. Instead of the traditional insurance premium, members pay a flat monthly or quarterly fee. In addition to medical services, HMOs often offer other services in a clinic setting: dental care, health education classes, smoking clinics, and treatment for drug and alcohol addiction. Each HMO is affiliated with one or more hospitals.

The Pros and Cons of HMOs

There are many advantages to membership in an HMO. You have:

- few if any out-of-pocket expenses.
- no insurance claims.
- medical records all in one place.
- all services, specialists and other medical personnel located under one roof.
- coordinated, 24-hour medical services.
- unlimited number of days in the hospital.
- no deductibles, coinsurance payments, or fees for surgery.
- predictable health care expenses.

In addition, HMO members spend an average of 10 to 40 percent less on medical bills yearly than do people with conventional health insurance. That is because subscribers who have access to preventive care and health education are more likely to get minor health

problems treated early, before they develop into serious conditions requiring expensive treatment. Staff members must work within a budget established by prepayments.

There are some disadvantages to an HMO. For example:

- You are committed to its services.
- You must sever ties with your present physicians and start over with new ones.
- You are unable to use a specialist of your own choosing.
- Some facilities are inconveniently located.
- You may encounter restrictions on treatments required away from home.
- Reimbursement for out-of-town emergencies may be erratic.
- You will have to take out disability income insurance elsewhere.

Furthermore, some HMOs do not accept individual enrollees and others offer individual memberships only at certain times, sometimes just once a year. An underfinanced HMO could also fail and leave members unprotected.

Shopping for an HMO

HMOs vary in the quality of care offered, so comparative shopping is important. Carefully read all the literature available, then ask the following questions when you check each one out:

- What is covered and not covered?
- What are the monthly premiums? Are there any extra costs? Are there any deductibles?
- Can you select a primary physician or change doctors if dissatisfied?
- Does the plan cover prescriptions?
- Are full-service hours offered?

- What is the typical wait for scheduled appointments?
- Are there age limits for dependents?
- Are there any exclusions for certain handicaps?
- Are the staff doctors board-certified or board-eligible in their specialties? What is their turnover rate?
- Do nurse practitioners or medical assistants handle minor matters?
- Will you have the right to obtain a second opinion or see a specialist?
- How are grievances handled?
- Is the HMO federally qualified?
- Are your friends and coworkers who belong to HMOs generally satisfied?

Compare the HMO's services and costs with those of your present health care arrangements, then find out from your local consumer agency or state regulator if there are any complaints on record about it.

An *Individual Practice Association* is a type of HMO that does not maintain its own staff and clinic buildings, but contracts with a number of doctors in private practice to provide services for members on a fee-for-service basis from their own offices. Commonly they are paid a set amount per patient in advance, and the doctor then absorbs the costs of all services to patients. A common administrative unit handles insurance, billing, etc.

With a choice of doctors, you may be able to find one near your home. IPAs can be more expensive than group practice HMOs, however.

Preferred Provider Organizations

Preferred Provider Organizations offer the services of doctors and hospitals at discount rates. An insurance company contracts with them to provide specified services for predetermined fees to PPO members. Members choose a doctor from the group. If they see one who is not in the plan, they must pay the difference between the PPO fee and the rates charged. PPOs are affiliated with area hospitals.

Government Health Insurance Programs

Discussed in this section are the U.S. government-sponsored programs, Medicare and Medicaid, and Canada's health insurance program. Medigap insurance, although offered only by private insurance companies, is included here because it supplements Medicare coverage. Social Security disability insurance is a government program also, but it is discussed in the section on disability income insurance, as is Worker's Compensation.

Medicare

Medicare is a federal health insurance program providing basic protection for people 65 and older, for disabled people under 65 who have been entitled to Social Security disability benefits for at least two years, and for those of any age with permanent kidney failure.

Medicare consists of Part A—*Hospital Insurance*, which is compulsory—and Part B—*Supplementary Medicare Insurance*, which is voluntary. Part A is financed through Social Security taxes and is available at no cost to those eligible for Social Security or Railroad Retirement benefits. Part B is financed by the monthly premiums paid by enrollees (which are deducted from monthly Social Security checks) and by general federal revenues.

With Medicare policies there are deductibles, coinsurance requirements and limits on the amounts paid. Furthermore, some services and items are not covered at all. Medicare will not pay for custodial care or for care that is not reasonable and necessary.

Local Social Security offices take applications for Medicare, provide information about the program and help in filing claims. You should contact your local office to inquire about applying for Part A at least two to three months before you turn 65.

Medicare Hospital Insurance—Part A

Hospital insurance will help pay for all necessary hospital care up to 60 days, minus a deductible; inpatient care in a *skilled* nursing facility; home health care; and hospice care. But it does not cover private nursing care or custodial care. Charges for a private room are paid only when medically necessary.

Medicare Supplementary Medical Insurance—Part B

Supplementary medical insurance is an excellent buy. It pays for doctors' services, inpatient and outpatient services and supplies, home health care, physical and speech therapy, ambulance service, etc. It includes unlimited home visits by skilled nurses and unlimited outpatient hospital treatment.

Although Part B coverage is voluntary, those with hospital coverage are automatically enrolled in the program until they officially withdraw. The premium is usually deducted from your monthly Social Security check.

In addition to a specified deductible you must pay each calendar year, you are charged the difference between what Supplemental Medical Insurance will pay—80 percent of the "allowable" amount of the bill—and the balance.

Doctors who agree to accept the amount approved by Medicare as full payment are listed in the *Medicare Participating Physician/Supplier Directory*. This is available in Social Security offices.

Medigap

Medicare was never intended to pay all medical costs. For this reason there are a group of insurance policies called "medigap" or "wraparounds" available, so called because they wrap around Medicare and fill some of the gaps. Any policy called a Medicare supplement must provide minimum standard coverage.

They either cover completely or help you pay for deductions, co-payments and items and services not covered by Medicare. Since medigap benefits are usually stated in percentages instead of fixed dollar amounts, they tend to keep up with rising medical care costs.



Before You Buy

Medigap policies are offered by private insurance companies, Blue Cross and Blue Shield and associations of retired persons. The better medigap policies pay back at least 70¢ to the dollar. Carefully check out the following features as you shop:

- **Preexisting condition clause.** Some companies will not cover preexisting conditions at all; others only after a waiting period of three months to two years. For some ailments there are automatic waiting periods, whether you had the illness before or not, and some companies consider a condition preexisting even if you were unaware you had it. If your policy is a Medicare supplement, the waiting period would be limited to 6 months.
- **Renewal clause.** A guaranteed renewable clause offers the best protection, because the company cannot raise the premium unless it does so for everyone in your geographic area with the same policy.
- **Exclusions.** A policy with the same exclusions as Medicare policies will be of limited use; on the other hand, there is no medigap policy presently covering eyeglasses and routine dental care.

It is better to have one comprehensive insurance policy to supplement Medicare than several that overlap, but do some comparison shopping. Keep in mind that medigap policies that cover 100 percent of medical expenses are very expensive and therefore undesirable. Most people would be better off paying the smaller expenses themselves. Secondly, duplicate coverage is costly and unnecessary, as few policies cover expenses already paid under another plan. With one policy it is also much easier to file claims. *Be sure to check your eligibility for Medicaid before purchasing any supplements to Medicare.*

Medigap Alternatives

There are three other types of supplemental coverage available:

- **HMOs** which have Medicare contracts offer all the services covered by Medicare. Medicare pays the HMO each month for most of the cost of your health care; you pay a premium to cover the deductible and coinsurance. While HMOs may offer better protection than other alternatives and give you the most for your money, they are not accessible in every area.
- **Hospital income policies** pay a specific dollar amount in cash for each day you are hospitalized, regardless of any other policies you have. The money can be spent for any purpose you wish but the fixed payments will not keep pace with rising medical costs.
- **Specialized or limited policies**, such as those for cancer, nursing home care, etc., are no substitute for a good comprehensive policy. They provide piecemeal coverage, often duplicate benefits you already have and lead to disputes over claims. They are an expensive way to protect yourself! For more information on cancer insurance, see page 28.

Medicaid

Medicaid is an assistance program which was established at the same time as Medicare, for people of any age who are unable to pay for health care. It is financed jointly by federal and state governments but run by state agencies according to federal guidelines. Medicaid covers people on Supplemental Security Income and other public assistance programs. Any others with limited income or financial resources may also be eligible for Medicaid if they have unmet medical needs.

Contact your local welfare office to find out if you qualify and what your benefits would be. You need not have contributed to Social Security or be on welfare to be eligible.

Canada Health Insurance

Canada's national health insurance program is comprised of a series of interlocking provincial/territorial plans and is supported by both the federal and provincial/territorial governments. It was designed to ensure that all Canadian residents have access to necessary medical and hospital care on a prepaid basis.

The **Canada Health Act** encompasses both insured hospital and medical services. The coverage, under federal legislation, includes all necessary hospital and physicians' services and essential surgical/dental procedures performed in the hospital.

All Canadians are entitled to these health services. There are no additional charges required for seeking insured services, and the coverage continues to apply while people are temporarily away from their province.

Canada Assistance Plan. Need is the only eligibility requirement for this cost-sharing plan for comprehensive health care services. With this plan the federal government shoulders half the cost of the program but does not require that the provincial plans be uniform.

Canada Disability Benefits. These include Worker's Compensation, unemployment insurance and benefits from the Canada and Quebec Pension Plans. Employees of many industries are covered by provincial Worker's Compensation programs, which pay nontaxable benefits for work-related accidents and a few illnesses linked to working conditions.

Persons with short-term disabilities can receive benefits under the **Unemployment Insurance Act**, beginning two weeks after the onset of

the disability and continuing up to 15 weeks. The benefits are taxable. Employer plans which meet certain criteria can register to substitute for UI payments, but they may be payable only after the latter have either begun or run out. When both are payable at the same time, UI benefits are reduced by the amount of payments from the employer plan.

An individual with long-term disabilities may receive disability benefits from either the Canada or Quebec Pension Plan, along with those from an employer plan or individual disability plan. In many cases, the employer or individual plan benefit is reduced by the amount initially received from the C/QPP. The benefits are taxable.

Disability Income Insurance

To young people, disability is a much greater threat than death. How would you fare without a paycheck? When you are unable to work because of a serious illness or injury, you not only lose your income but often require expensive medical care. To many this would spell financial disaster. That is why disability income insurance—which will provide you with a monthly income should you become partially or totally disabled—is absolutely vital.

Selecting Disability Insurance

Carefully shop around. Premium rates and provisions vary greatly and disability income policies have numerous technicalities. Medical exams will most likely be required for individual policies.

Pay particular attention to the following points:

- **The monthly benefits.** Aim for an amount which when added to your other income will equal 60-70 percent of your gross pay (the maximum most policies allow). The greater the benefits the greater the cost, of course.
- **The waiting or elimination period.** The longer the waiting period before benefits begin—commonly 14, 30 or 90 days—the lower the premium cost. (Choosing 90 days instead of 30, for example, cuts the premium one-third.) The smart approach is to use your emergency savings to meet the expenses of a short illness, and insure yourself for the long term. Many can afford to wait at least six months because they have short-term protection from their employers.

- **The benefit period.** This begins when the waiting period ends, and can range from as few as 13 weeks to as long as a lifetime. The shorter the benefit period, the lower the premium.

- **The definition of disability.** Good disability plans pay when you are unable to work at your *regular* occupation; a poor plan pays only when you are unable to work at any occupation. A good policy will also make partial disability payments when you return to work on a part-time basis.

- **The peril(s) insured against.** This could be for an accidental bodily injury alone or for both accident and sickness. Make sure you are covered for both, whether you are hospitalized, confined to your home or have limited mobility.

- **The renewal provisions.** Renewal at the company's option is the least desirable policy. The best type? *Noncancellable*, because it is guaranteed renewable and freezes the premium at its original cost. The premium is higher but it is well worth the extra money.

- **The waiver of premium clause.** This suspends premium payments while you are disabled.

- **The rehabilitation clause.** This will pay at least partial benefits while you are undergoing rehabilitation.

Additional recommendations: See if you qualify for a lower premium if you agree to forgo part of your monthly benefit when Social Security or Worker's Compensation begins. Most policies take Social Security benefits into consideration and coordinate their benefits with it.

Social Security Disability Payments

Requirements for Social Security disability checks are strict. To be considered disabled, the individual must be unable to work because of a severe physical or mental impairment that has lasted or is expected to last at least 12 months or to result in death.

Social Security pays monthly disability benefits to:

- disabled workers under age 65 and their families.
- unmarried people disabled before age 22.
- disabled widows and widowers, and (sometimes) disabled divorced spouses of workers who were insured at death.

Disability payments are based on your career average monthly earnings on which Social Security taxes were paid. They are automatically adjusted periodically to reflect increases in the cost of living. To qualify for benefits you must meet certain requirements. Contact your local Social Security office for more information.

Worker's Compensation

There are Worker's Compensation statutes in all states, but these are privately financed (i.e., funded by employers), state-administered programs. They provide medical expense benefits for *job-related* accidents and illnesses, without regard to fault.

The benefits cover medical costs, lump sum amounts for dismemberment, rehabilitation, disability income, and death benefits to survivors. Most states pay as long as the disability lasts, but there are wide variations in benefit amounts and payment periods.

Cutting Health Care Costs

The best way to keep medical expenses down is to keep yourself fit! Maintain a good diet, get proper exercise, control your weight, do not smoke, have regular checkups. In addition:

- If you need medical help, call your doctor first. Perhaps he or she can diagnose your complaints and initiate treatment over the phone, saving you a trip to a specialist or the emergency room.
 - If elective surgery is recommended, always obtain at least one other opinion.
 - Reduce hospitalization costs by asking your doctor to arrange outpatient testing whenever possible.
 - Compare doctor, hospital, diagnostic and treatment costs in advance. The charges vary considerably and lower costs do not necessarily mean lower quality.
 - If you have a choice, be admitted to the hospital on a Tuesday, Wednesday or Thursday, since most routine testing services operate only from Monday morning to Friday afternoon.
 - If you need minor surgery, ask about "same-day surgery," i.e., in the doctor's office or ambulatory center. It will cost between 25 to 75 percent less than surgery performed in a hospital.
 - Always check your hospital bills and question any charges you are unsure of. Sometimes mistakes are made.
- Buy generic prescription drugs, if your doctor approves.
 - Check to see if you have duplicate group insurance coverage.
 - Pay insurance premiums quarterly or annually, if possible, instead of monthly.
 - Periodically compare your health insurance program with alternative plans, to ensure it is still the best one for you.
 - Whenever possible, subscribe to a group health plan.

Buying Life Insurance

Do you have some unanswered questions about life insurance? If you are thinking about buying a policy, you probably realize there is a lot to learn. But it is not as complicated as you might think. Once you have tackled the basics, you should be ready to make some informed decisions.

Assessing Your Needs

A life insurance policy can care for your beneficiary in several ways. For example, it can provide money for funeral expenses, outstanding debts, income for family members, funds for educating children and retirement income for the surviving spouse—whatever your personal circumstances require.

If you are the primary breadwinner, life insurance for yourself should be a

top priority; coverage on your spouse would be the next. Your particular insurance needs will depend in part on the number and ages of your dependents. How long will they need protection?

For example, consider the following scenarios:

- **You are single with no dependents.** Will the loss of your income create a financial hardship for other family members? If not, a small policy covering burial expenses and outstanding debts may be adequate. However, be sure to evaluate the advantages of owning life insurance relative to your other financial and personal plans.



- **You have young children.** This is often the time when your income is lowest, your budget the tightest and your savings nonexistent. Adequate income should be provided until your children are self-supporting, with child care and educational expenses taken into consideration.

- **You have grown children.** There is generally less need for life insurance at this stage, because there are fewer demands on your financial resources and you have had more time to accumulate savings. You may want to provide retirement income for your spouse, however.

- **You are married with a non-working spouse.** He or she would need enough for living expenses until employment could be found or a retirement income secured. Take any child care costs into consideration.

- **You are a two-income family.** Although the amount of life insurance required on each individual usually decreases with a two-income family, both incomes contribute to the family's standard of living and should be insured. Furthermore, additional expenses may be incurred, such as housekeeping and child care. Again, do not forget to take into consideration financial plans for education, etc.

Should children be insured? Although buying a policy guarantees their future insurability, this is usually not a problem. So unless your family medical history warrants it, insurance for your children need not be a top priority.

How Much to Buy

Deciding how much insurance to buy is a financial decision which may require some expert advice. Since many factors are involved, such as the

ESTIMATING YOUR INCOME NEEDS

LUMP SUM NEEDS

Final Expenses:	Amount Needed
Funeral costs	\$ _____
Uninsured medical costs	_____
Estate taxes	_____
Probate costs	_____
_____	_____
_____	_____
_____	_____

Outstanding Debts:

Credit card balances	\$ _____
Personal loans	_____
Installment loans	_____
Mortgage	_____
_____	_____
_____	_____
_____	_____

TOTAL \$ _____

ONGOING NEEDS

Annual Expenses:

Basic living expenses	\$ _____
Child-care expenses	_____
Emergency fund	_____
Education fund	_____
Retirement savings	_____
_____	_____
_____	_____
_____	_____

TOTAL \$ _____

ESTIMATING YOUR RESOURCES

	Amount
Spouse's Annual Income:	\$ _____
Lump Sum Payments:	
Life insurance	\$ _____
Cash on hand (savings and checking accounts, money market accounts)	_____
CDs, Treasury bills, etc.	_____
Market value of securities (stocks, bonds, mutual funds)	_____
Social Security benefits (in Canada, Canada Pension Plan)	_____
Pension benefits	_____
Profit sharing plans	_____
IRAs or Keogh accounts (in Canada, RRSP accounts)	_____
Veterans' benefits	_____
Company-sponsored savings plans	_____
_____	_____
_____	_____
_____	_____
TOTAL LUMP SUM PAYMENTS \$	_____

age and number of your dependents, the expected rate of inflation, etc., ask your insurance agent for help when calculating your income needs and available resources.

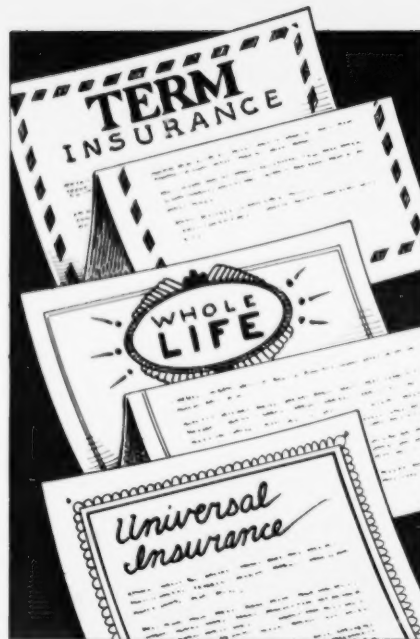
Determining Income Needs

Figuring your actual income needs begins with a few mathematical calculations. Using the chart on page 14, determine what your expenses would be if the insured were to die today. There are three kinds:

- **Final expenses** are one-time expenses which include funeral costs, uninsured medical expenses, taxes and other costs associated with the settling of an estate. Your lawyer or insurance agent should be able to help you with these calculations.
- **Outstanding debts** are also one-time expenditures and include installment loans, personal loans and the outstanding balance on your mortgage and any credit card accounts. You have already determined some of these figures on your net worth statement. See page 5.
- **Annual expenses** include ongoing needs such as basic living expenses, child-care costs and an emergency fund for items such as a leaky roof, car repairs, etc.

Your mortgage can be viewed in one of two ways—either as an outstanding debt to be paid in full as shown on the chart, or as an ongoing expense to be included when calculating your family's income needs. The latter is easier to determine with a fixed mortgage rate, because the payment remains constant.

Remember, the purpose of life insurance is to help maintain the standard of living of the survivors, not to raise it. It is not necessary to replace the breadwinner's entire income either, since some budgetary adjustments would probably be made. In measuring survivors' needs, also allow for inflation,



which can erode your future spending power. Also estimate the approximate rate of interest that family members can safely expect to earn on investments. For help with these figures, contact your insurance agent, a banker or other financial counselor.

Estimating Your Available Resources

Once you have identified your income needs, the next step is to determine the available resources or income you have to meet them.

Using the chart on page 14, calculate your available resources. Start with the cash value of savings accounts, investments, Social Security benefits, pension and/or retirement plans and the face value of your life insurance policy.

Contact the nearest Social Security office to obtain information on survivor benefits. If you qualify for pension or retirement benefits, ask the personnel or human resources department at your place of employment for these figures. A spouse's annual income and any

saleable assets, such as a house, should also be considered.

Because your family situations will change and economic conditions are difficult to predict, your total insurance needs should be reviewed with your agent on an annual basis.

Types of Insurance Policies

Selecting the right type of insurance policy is an individual decision based on personal needs and preferences. Since each of us has his or her own reasons for purchasing insurance—and expectations for it—no one policy is best for everyone.

There are three basic types of life insurance sold today—term, whole life and universal. The characteristics of each are described here, along with their advantages and disadvantages and the various forms in which they are available.

Term Insurance

Term insurance provides insurance coverage for a specific length of time—one, five, ten or twenty years. The coverage ends when the term has expired or when you stop paying the premiums. Payment to your beneficiary is made only if you die within the term stated in the policy.

Term insurance may be renewable, convertible or decreasing. If your policy is *renewable*, you can continue your insurance coverage for another term. The premiums will increase with each renewal, but no medical exam is needed. *Convertible* policies allow you to exchange your term insurance for a whole life policy without a medical exam, but be prepared to pay a higher premium. With *decreasing* term insurance the premiums remain the same, but the amount of coverage decreases over time.

The main advantage to purchasing term insurance is that it costs less than other types of life insurance for the same amount of coverage at a younger age.

It also lends itself to those situations when you want coverage for a specific length of time—to cover a home mortgage, for example.

A disadvantage to term insurance is that premiums increase with each renewal. It can become quite expensive if purchased over the course of a lifetime, and there is usually a maximum age beyond which the policy can no longer be renewed. In addition, term insurance does not build up a cash value, although the money saved in premiums could be used for investment purposes.

Whole Life Insurance

Whole life insurance, also called straight life, permanent or ordinary life, provides protection *and* savings. In most cases, the premiums remain steady over the life of the policy and protection can be kept in force throughout your lifetime.

In addition, this type of insurance builds up a cash value which can be used as collateral for a personal loan. (If the insured dies before the loan is repaid, however, the amount outstanding is subtracted from that paid to the beneficiary.) It can also serve as an insurance premium to keep the policy in force. Another option would be to purchase a smaller insurance policy or an annuity. Finally, the policy can be discontinued, which means you would receive its value in cash.

Whole life insurance may benefit those who have difficulty saving on their own. The premiums are higher than that of term insurance to allow for the cash value accumulation. However, today the rate of return is usually competitive with market rates and taxes on the interest are deferred until you withdraw the earnings from your policy.

There are several variations of whole life insurance. With a *limited payment* policy, premiums are paid for a specific period of time—usually 10 or 20 years—but the coverage remains in force throughout your lifetime. Because the cash value builds up faster, premiums are slightly higher than standard whole life policies. With a *modified whole life*

policy the premiums start out low and then increase in later years. This type of policy is geared to young people, who may find the initial premiums unaffordable.

Several new forms of whole life insurance have been developed during the past few years. These new forms offer competitive returns, like current whole life policies, but are more flexible in their design. The first such policy is called universal life. It is the most frequently purchased type of whole life insurance today.

A *universal life* policy is comprised of two units—the investment component and the protection element. A portion of your premium covers the cost of a term insurance policy and administrative expenses. The remainder is placed into short-term investments. Any increases in the cash value reflect the interest earned on these investments. Premiums may be paid at any time and in any amount, subject to certain restrictions.

A *variable universal life* policy is similar to the universal life policy, except that you have a choice of investments—stock funds, money market funds, bond funds—for accumulating cash value. In addition, you may select a particular type of fund within each group, i.e., a growth stock fund or an income stock fund, depending on your investment objectives. The cash value of the policy fluctuates with the market. You assume a greater share of the investment risk with this type of policy. However, there usually is a minimum guaranteed death benefit and if the investments do well, your cash value could increase more rapidly than in other policies. All in all, be sure you understand the potential investment consequences before purchasing this type of policy.

With an *adjustable life* policy, you can change back and forth between term and whole life insurance by changing the amount of the premium or the period of coverage. Because the policy can easily be adjusted to fit

changing circumstances, you need only one policy throughout your lifetime.

When purchasing whole life insurance find out:

- What are the premium charges—the agent's commission and administrative costs?
- What is the cost of the insurance portion of the policy?
- What is the rate of return on the investment component of the policy?
- How are interest rates determined? How frequently are they adjusted?
- What are the penalties for early withdrawal or cancellation of the policy?
- To what extent is the cash value available for you to borrow? What interest do you pay on loans?
- With a variable universal life policy, what has been the investment performance for alternative funds?

Reading a Life Insurance Policy

Your insurance policy is a legal document or contract between you and the insurance company. The first part of it offers a brief description or summary outlining the basic agreement. Here you will find specific information regarding the type of policy, the date the policy is effective and the beneficiary.

Also look for information pertaining to the premium, which is the amount you pay to the insurance company to keep the policy in force. Premiums can remain constant, increase or decrease, depending on the type of policy, and are usually paid annually, semiannually, quarterly or monthly. Also important is the duration or length of time the policy is in force.

The Basic Provisions

Several provisions in the body of your insurance contract are listed below:

- **Death benefit.** This is the amount paid to the beneficiary after you die. The amount usually remains constant but it can fluctuate, depending on the type of policy you select.
- **Beneficiary.** This clause identifies the individual(s) who will receive the death benefit.
- **Settlement options.** This section spells out the methods by which the death benefit can be paid to a beneficiary.
- **Ownership rights and assignment.** This clause states that, as the owner, you have the right to select the beneficiary and the settlement options and the right to borrow against the cash value of the policy. The assignment clause allows for greater flexibility within the contract. Should you want to borrow against the policy, you would turn over or assign partial

ownership to the creditor, or if your estate is large enough, you may want to assign ownership for tax reasons.

- **Grace period.** This is the time immediately following the premium due date, usually 1 to 30 days, during which you can pay your overdue premium and keep the policy in force. If you die during the grace period, the unpaid premium will be subtracted from the death benefit.
- **Incontestability.** Once the policy is in force for a period of generally two years, the insurance company can no longer challenge the information listed on the application.
- **Suicide.** This section limits the liability of the insurance company in the event that your death is a suicide. If you commit suicide

within two years after the policy is issued, the amount paid to your beneficiaries would only equal the total paid premiums plus interest.

- **Reinstatement.** If your policy has lapsed, this clause spells out the terms under which it can be reinstated or put back into force.
- **Misstatement of age.** This section states that if your age is listed incorrectly on the life insurance policy, the death benefit will be adjusted to your correct age.
- **Alteration of policy.** This clause protects you and the insurance company by requiring that all changes to the policy be made in writing and over the signature of a company officer.



Insurance Riders

In addition to the basic provisions of your insurance contract, you may wish to purchase additional benefits or riders. These include:

- **Waiver of premium.** This is a way of making certain that your insurance premiums will be paid should you become totally disabled. The waiver usually goes into effect after the first six months of your disability.
- **Accidental death benefit.** Sometimes called double indemnity, this is the additional sum to be paid to your beneficiary if you should die as a result of an accident. In most cases the death benefit is doubled.
- **Guaranteed insurability.** This permits you to purchase additional life insurance at stated intervals without the need for a medical examination. This option is generally offered to those under 40 years of age and is commonly used by people who feel their insurance needs will be increasing in the future.

The Application

The final section of your insurance contract is the application. Here you provide the insurance company with information about yourself, such as your current state of health, age, occupation, etc. Before signing any contract you should review it carefully. Talk to your insurance agent if you have any questions or if there are terms which you do not understand.

Naming a Beneficiary

One of the most important decisions you make when buying life insurance is selecting a beneficiary. This is the person (or persons) who will receive the proceeds from your policy. If you are married it is usually your spouse, but anyone—friend or relative—can be named. Since personal circumstances

change, ask yourself periodically if the beneficiary listed is still your first choice.

Many people name both a primary and secondary or contingent beneficiary. Should you survive your primary beneficiary, your contingent choice would receive the proceeds from your insurance policy.

Settlement Options

How do you wish your beneficiary to receive the proceeds? There are three basic settlement options:

- **A lump-sum payment** enables the family to pay off outstanding debts and other expenses during their readjustment period. The cash can also be invested to provide additional income.
- **A limited-installment** option distributes the death benefit in fixed equal installments, until both the principal and interest are exhausted. This option is generally used to provide temporary income, but it also prevents younger dependents from spending large sums of cash unwisely.
- **A life-income plan** provides your beneficiary with a lifetime of income. If the beneficiary should die before the payments are completed, a contingent beneficiary would receive the rest. This arrangement is best when there are dependent children who would need income after the untimely death of the primary beneficiary.

Since the options you choose may have some tax implications for the beneficiary, it is best to discuss your selection with an insurance agent. Although death benefits are not usually subject to income taxes, this would depend on the size of your estate. If the settlement is taken in installments, the interest earned on the principal is taxable as received.

Shopping for the Best Value

Having determined your insurance needs and the type of policy best for you, the next step is comparative shopping. To do this, you must understand how insurance rates are figured and how to effectively compare them.

How Rates are Set

By studying literally thousands of cases, skilled mathematicians called *actuaries* calculate the probability of any one person dying within the year. The results are compiled into mortality tables. Since your chances of dying increase with age, so do the insurance rates. Your lifestyle also affects the cost. Some companies now offer discounts to nonsmokers or those who exercise regularly. The cost of your premium includes certain business expenses incurred by the insurance company as well.

Comparing Policies

Believe it or not, the differences between similar policies offered by various companies can add up to a significant sum. A simple check of the annual premium costs, the yearly buildup of cash value (if any), the amount of the death benefit, and interest and dividends (if any), will give you a general idea of which policy is the better buy. Your agent will be able to give you an illustration of this data over a period of years for a policy.

To take your comparison a step further, you can review interest-adjusted cost indexes, which are available from any insurance agent. The smaller number represents the most economical buy. To get a true picture of the costs involved, be sure you are comparing like policies. They should be the same type—term, whole life, universal, etc.—with identical features—cash value, death benefits, waivers, etc.—and the same amounts of coverage for the same period of time.

Price, of course, is not the only factor to consider when buying life insurance. The financial reputation of the insurance firm, reliability of the insurance agent and readability of the insurance contract are also very important. (See the section on *Selecting an Insurance Company* on page 29.)

Switching Your Policy

If you are switching your present policy for another, discuss the alternatives with your insurance agent. You may find it possible to modify your current policy. If you do change policies, be aware that you will have to pay the sales commission all over again, and the incontestability and suicide clauses will begin anew.

Only if your current policy is more than five years old, would it possibly be worth replacing. Premium costs on newer policies are so much lower, that you may pay a smaller premium for a new policy, even though you will be purchasing it at an older age. Furthermore, the interest rates on current policies are generally far better than those paid on older, traditional policies.

If you determine that it is in your best interest to change policies, let an agent guide you. He or she will make sure that you are still medically insurable before you switch, and that there is no lapse in coverage between your old policy and the new one. Plus, the agent will coordinate the transfer of any cash values from one company to the other so that you do not incur adverse tax consequences.

Annuities

Annuities, like insurance, are legal contracts which provide future financial security. Unlike insurance, which protects your dependents if you do not live long enough, annuities protect you from living too long—beyond your savings—by providing a monthly retirement income.

Annuities can be purchased for a lump sum (single-payment type) or in installments. A monthly income is then

paid to you immediately or at some future date. You decide. The main drawback to annuities is that most pay a fixed amount and sometimes do not keep up with inflation.

There are several different types of annuities, some of which are described here:

- **Straight life annuities** guarantee a monthly retirement income for as long as you live. The payments stop, however, after your death.
- **Deferred annuities** provide income at some future date. These are tax deferred in that the interest builds up tax free during the accumulation period.
- **Joint life and survivorship annuities** provide income first for two people—generally a husband and wife or two siblings—and then to the survivor.
- **Variable annuities** provide fluctuating monthly payments because they stem from equity and stock investments.

Automobile Insurance

The financial consequences of car accidents can be devastating. Without insurance, for example, you could be sued for personal injuries and/or property damages in amounts totaling hundreds of thousands of dollars. You could end up with huge medical bills for yourself and your passengers. At the very least you could be stuck with expensive repairs on your own car.

Most states and Canadian provinces have *financial responsibility* or *compulsory insurance laws* that require drivers to prove they can pay up to a certain amount in case of an accident. Since these sums are typically \$25,000 per person and \$50,000 per accident in the U.S., most people can guarantee payment only if they have insurance coverage.

The enforcement of financial responsibility laws varies greatly. While many states will not issue license plates if a car owner lacks liability insurance or some other approved form of security, others are very lax. Whatever the situation in your state/province, you will be responsible for any damages exceeding your liability coverage.

No-fault laws require drivers to purchase personal protection coverage. Your insurance company then pays for treatment of injuries that you and any passengers suffer in an accident, and for repair of any damages to your car, no matter who is at fault. The laws vary considerably, however, in respect to the amounts paid, the inclusion or exclusion of property damage and the conditions governing the right to sue.

The Kinds of Coverage

An auto policy is essentially a *package* of coverages. It is important to understand each type well before beginning your insurance shopping.

United States

In the United States the standardized insurance package contains six types of coverage. *Each policy pays up to the limits stated in the contract.*

- **Bodily injury liability insurance** pays medical expenses, lost wages, court fees and other costs resulting from injuries to others incurred in an accident for which you are legally liable. It will also pay when someone else, driving your car with your permission, is responsible for an accident.

- **Property damage liability insurance** pays for the repair of damages caused by your car to another's property, and for any legal fees you incur as a result.

Liability coverage might be stated as 100/300/50, for example. This means that the insurer will pay up to \$100,000 for injuries to one person, a maximum of \$300,000 for all injuries in a single accident, and up to \$50,000 for property damages. See page 27 for additional information on liability coverage.

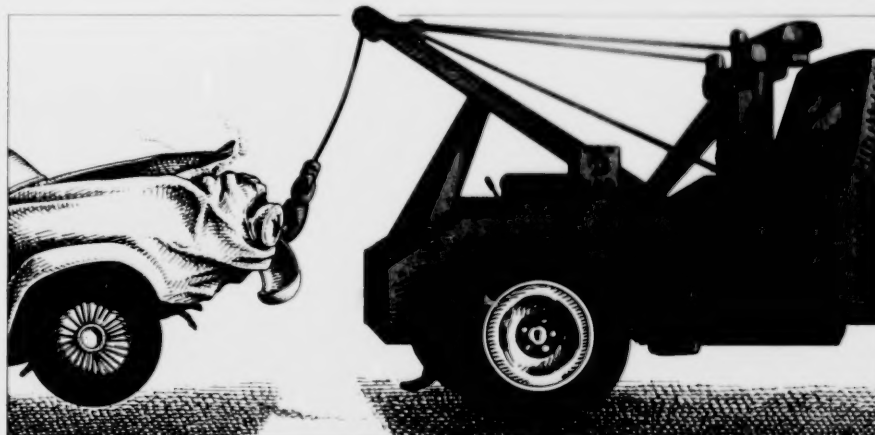
- **Collision insurance** pays for any damages to your car resulting from a collision or overturning, regardless of who is at fault. It usually is sold with a deductible. (If you have a deductible of \$150, you pay the first \$150 of a collision claim, and the insurer pays the rest.) The higher the deductible, the lower the premium.

- **Comprehensive physical damage insurance** pays for repairs when your car is damaged by fire, flooding, vandalism, hail or explosion, or if it is stolen—a real possibility today. Comprehensive insurance is also usually sold with a deductible.

- **Medical payments insurance** pays the medical expenses of all injured occupants of your car, regardless of who is at fault and even if someone else is driving it with your permission. It also covers medical expenses if you or a relative living with you is struck by a car or injured while a passenger in someone else's.

You are not required to have medical payments insurance but it is worthwhile, even if you have good medical coverage. The latter rarely covers persons who are not family members. It is important to keep in mind, however, that the limits usually are quite low and will not cover the costs of extensive treatment.

- **Uninsured motorists' protection** pays for treatment of injuries for which an uninsured or hit-and-run driver is legally liable, up to the minimum limits prescribed by the



financial responsibility laws of your state. In most states this coverage is mandatory. It covers all occupants of the car you are driving, your own or another's, as well as you or any relative living with you who is struck by a hit-and-run motorist.

Other types of auto insurance coverage *not* part of the basic package are:

- **Personal injury protection (P.I.P.)** is compulsory in states that have no-fault auto insurance laws. With P.I.P. your own insurance company will compensate you for lost wages and pay the medical expenses for you and any passengers injured in an accident involving your car, regardless of fault. P.I.P. will also pay if you or a relative living with you is injured in someone else's car. P.I.P. does not eliminate the need for liability coverage, however.
- **Auto accident benefits** pay a lump sum to you or eligible family members in the event of death or loss of limb or sight as a result of an accident. It also offers a regular weekly disability income.
- **Underinsured motorists' protection** makes up the difference between the other driver's coverage and your losses.
- **Rental reimbursement** coverage reimburses you for car rental while your car is being repaired. No other auto insurance coverage pays for a rental car except comprehensive, which does so only if your car is stolen.
- **Replacement cost coverage** will pay for the cost of fixing or replacing your car with a new one without a deduction, even if it is only a year or two old.
- **Towing and emergency road service.** This pays for towing and service charges if your car breaks down, a real boon if you are caught far from home.

Canada

In Canada, car insurance is much the same everywhere, although provided by private insurers in some provinces and controlled by provincial governments in others. Three basic types of protection are offered:

- **Bodily injury liability and property damage liability** are known collectively as *third party (public) liability insurance*. They protect you or another driver of your car against claims for bodily injuries and property damages up to minimum amounts set by the provincial governments.
- **Accident benefits (medical) insurance** provides you with financial protection in case of bodily injury to yourself, to the occupants of your car, or to any person struck by your car. This is done without regard to fault.
- **Collision and comprehensive (physical damage) insurance** pays for damages to your car as a result of accident, less a deductible, and for damages to your car caused by anything other than a collision. This coverage is based on the cash value of your car at the time of mishap and there is no set dollar limit.

There are other plans that protect your car. *All-perils insurance* combines comprehensive and collision into a single policy with a single deductible. *Underinsured motorist insurance* protects you from noninsured and underinsured drivers. It makes up the difference between the amount of your claim and the amount of liability insurance carried by the other driver.

How Costs Are Determined

The costs of identical car insurance coverage can vary as much or more than 100 percent in the same state/

province. They can, for that matter, differ from one neighbor to the next! Rates depend on many factors: the area in which you live; your driver classification; your traffic violation record; the year, make and model of your car; the various discounts available and the deductible you take. They also depend on the amount of claims the company has recently paid out. The more of these there are, the more it must charge in premiums—and the higher your costs.

To keep payouts at a reasonable level, companies try to accurately assess the degree of risk each applicant presents and then charge accordingly. The following factors are taken into consideration in most states:

- **Age, sex, and marital status.** Drivers between 16 and 25 have more accidents than any other age group, young males more than young females, and unmarried drivers more than married ones. Drivers falling into the higher risk categories, therefore, usually pay higher rates. A driver's education course and a high scholastic standing, on the other hand, can merit lower rates.
- **Driving record.** Drivers who have had more than the average number of accidents and serious traffic violations (e.g., reckless driving, driving under the influence) must pay more for insurance.
- **The year, make and model of a car.** The more the car costs to repair or replace, the higher the rates for collision and comprehensive insurance. Premiums are also greater for sports cars, which are more frequently stolen, and for small, lightweight cars which sustain more damage in accidents.
- **Driving locale.** People who live in the heart of large cities pay more than those who live in rural areas

COMPARING INSURANCE COSTS

KIND OF COVERAGE	LIMITS DESIRED	COMPANY #1	COMPANY #2	COMPANY #3
Liability				
A. Bodily Injury	\$_____ per person			
	\$_____ per accident			
B. Property Damage	\$_____ per accident			
Physical Damage				
A. Comprehensive	\$_____ (actual cash value)			
B. Collision	\$_____ deductible			
Medical Payment	\$_____ per person			
Uninsured Motorist	\$_____ per person			
	\$_____ per accident			
Personal Injury Protection (PIP)	\$_____ disability income (monthly)			
Auto Accident Benefits	\$_____ lump sum \$_____ disability income (monthly)			
Umbrella Liability	\$_____ maximum			
Towing & Emergency Road Service	\$_____ maximum			
Rental Reimbursement	\$_____ per day			
Replacement Cost Coverage	\$_____ per day			
ANNUAL TOTAL				
INSTALLMENT PAYMENTS				

or small towns. The latter run less risk of accidents, vandalism and theft.

- **The use of the car.** The more miles driven, the higher the premiums. People whose cars are driven strictly for pleasure get a lower rate.

Buying Car Insurance

The costs of auto insurance keep going up, but you will have greater control over them if you acquire certain information before comparison shopping.

Shopping Preliminaries

First of all, decide the kinds and amounts of coverage you really need. Liability protection is of the highest importance. Even if your state requires a minimum amount of personal injury and property liability insurance, it is probably too low to cover all your potential losses. Experts recommend that the average driver carry 100/300/50 in the U.S. and \$500,000 in Canada, but those with much to lose should consider getting even more, or an umbrella liability policy. (See page 27.) You can double your liability coverage for only slightly higher premiums.

You may not need all the other basic coverages. If you are driving an old car, for example, carefully consider the value of collision coverage. The insurance company will not reimburse you for more than the current market value of the car immediately before the accident.

If you finance your car, the lending company will probably insist that you have both collision and comprehensive coverage. If its cost is included in your monthly payment, find out exactly what the coverage is *before* you have an accident. (Be aware that you have the right to purchase insurance from an agent and company of your own choice.)

Making Your Choice

It is almost as important to have confidence in your agent as your insurer. Once you have narrowed the companies down to two or three, find local insurance agents that represent them. Determine exactly how much coverage you want, what it would cost, and mark it on the chart on page 22.

If you are unable to get coverage because of your driving record or other reasons, investigate the *assigned risk* or *auto insurance plan* in the U.S. or the *facility plan* in Canada. These were established to provide the minimum amount of insurance protection required by law to those not qualifying for standard car insurance.

Typically, each insurer is assigned a certain number of drivers who present more risk than those they ordinarily insure. In many cases, you will not be able to choose your insurer but will be assured of coverage if you have a valid driver's license and can handle the premiums. Expect to pay two to three times as much in premiums as you would ordinarily pay, however.

Most companies require a written application. If you do not fill it out honestly and completely, the insurance company could refuse to issue a policy, cancel it later, or refuse to pay a claim. And be sure you fully understand the wording before you sign!

Cutting Your Costs

There are a number of ways you can reduce the costs of your auto insurance:

- Ask how you can qualify for discounts. Companies offer them for a number of reasons—for good driving records, good academic records, membership in car pools, low mileage, and for insuring more than one car, for example. What counts, however, is the company's total cost for the package of coverages you want.

- Be careful not to duplicate coverage. Does your homeowners policy already cover your car's contents? Does your medical coverage include passengers injured in your car?

- Notify the company immediately if you sell one car or if an insured driver leaves your household.

- Keep your car in good condition; drive carefully, observe common courtesies. Report any accidents or claims promptly and accurately, and any change which could affect your premium and/or coverage.

- Keep your car longer. Comprehensive and collision insurance decrease as a car ages.

- Take the largest deductions possible.

- Find out the insurance rates on a car before you buy. Parts and service on some makes are high-priced. *The more expensive the car, the more costly the insurance.*

- If you are satisfied with your insurance company, stay with it and establish a good insurance record. You are much less likely to have your policy cancelled if you are involved in an accident.

- Pay your insurance premium in full each year instead of in installments.

Homeowners and Tenants Insurance

Is your home protected in the event of a disaster—flood, tornado, fire or burglary? Often homeowners or tenants find out too late that their insurance coverage is not enough. Since your home—be it a house, apartment, condo or mobile home—is probably one of your most valuable assets, adequate insurance protection is a must.

Taking a Household Inventory

Without looking, see if you can list everything that is in your living room. How did you do? A personal inventory is a record of your household belongings. It not only serves as a reminder of

all that you own, it can also help to verify the price and purchase date of various household items, which will expedite any claims.

Inventory charts are available at local stationery stores, through an insurance agent, or you can make up your own. Start with a room at a time. Record what you see, its approximate value, (allowing for depreciation) and the purchase date. Be as specific as possible, using brand names and model numbers. Some items can be lumped together: kitchen utensils, linens and towels, for example. But anything of special value should be listed separately. In addition, it is a good idea to take photographs or even a video recording of individual pieces which are of particular value, as well as

entire rooms—with closet doors open!

For those special items which may appreciate in value—fine art, antiques and jewelry—you will probably want to obtain an appraisal. Your banker, lawyer or insurance agent should be able to recommend an appraiser. If not, check the Yellow Pages.

Once your list is complete, total the value of your belongings. Are you surprised by the final sum? This may indicate a need for more insurance. Since most policies cover a limited amount on jewelry and furs, you should purchase additional coverage for these and other valuables—silver pieces, coin or stamp collections, for example.

Place the original draft of your inventory in a safe deposit box for safekeeping and make a copy for your files at home. Have you bought a new computer lately, camera or microwave? Do not forget to update your inventory.

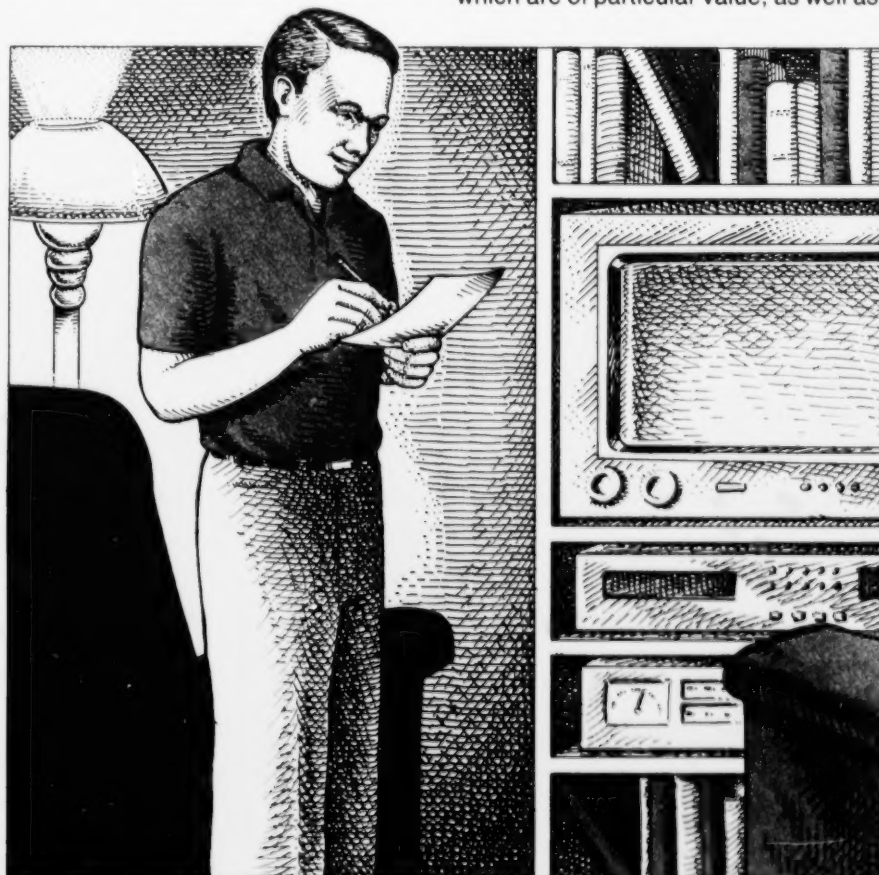
Choosing a Policy

The basic homeowners insurance package protects you against the loss of personal property and provides personal liability coverage should you, another family member or household pet be held liable for an injury to someone else or their property.

Buy the best coverage you can afford. Your home should be insured for up to 80 percent of its replacement value or the cost of rebuilding it. Note that you insure the structure and not the land or foundation, which is usually 20 percent of total property value. If you are unsure as to what the replacement cost would be, consult a local home builder, real estate appraiser or your insurance agent.

The amount of coverage you have on your home directly affects the amount of protection you have on its contents. For example, if your home is insured for \$80,000, coverage on your personal property is usually half that, or \$40,000.

When buying insurance, do not forget to allow for inflation; over time



this can add considerably to your replacement costs. Some policies are available with an inflation clause, which automatically increases your insurance coverage as well as your premium.

Personal Property Coverage

Homeowners insurance comes in several different forms—Basic, Broad, Comprehensive, Special, Contents Broad and Condo Insurance. Each covers the following:

- Your house, garage and other structures—i.e., tool shed, guest house—which are not used for business or rented to others. (excluding tenants and condo policies)
- Your household belongings—i.e., furniture and appliances, clothes, and tools, whether they are used at home or elsewhere.
- Additional living expenses, should you need to stay in a hotel or motel while your home is being repaired.

The three standard forms of homeowners insurance—Basic (HO-1), Broad (HO-2) and Comprehensive (HO-5)—differ only in the number of perils that each one covers.* The *Basic form* (HO-1) protects you against 11 different perils, the *Broad form* (HO-2) insures against 18 perils and the

*In Canada, there are four types of policies—*Limited Homeowners*, which has no theft coverage; *Homeowners*, which covers named perils including theft; *Broad Homeowners*, which covers the building for all risks and its contents for named perils; and *Comprehensive Homeowners*, which covers the building and contents for all risks.

STANDARD FORMS OF HOMEOWNERS INSURANCE

BASIC	BROAD	COMPRE- HENSIVE	PERILS AGAINST WHICH PROPERTIES ARE INSURED
			1. fire or lightning
			2. loss of property removed from premises, endangered by fire or other perils
			3. windstorm or hail
			4. explosion
			5. riot or civil commotion
			6. aircraft
			7. vehicles
			8. smoke
			9. vandalism and malicious mischief
			10. theft
			11. breakage of glass constituting a part of the building (not included in the Tenants Form)
			12. falling objects
			13. weight of ice, snow, sleet
			14. collapse of building(s) or any part thereof
			15. sudden and accidental tearing asunder, cracking, burning, or bulging of a steam or hot water heating system or of appliances for heating water
			16. accidental discharge, leakage or overflow of water or steam from within a plumbing, heating or air conditioning system or domestic appliance
			17. freezing of plumbing, heating and air conditioning systems and domestic appliances
			18. sudden and accidental injury from artificially generated currents to electrical appliances, devices, fixtures and wiring (TV and radio tubes not included)
			All perils except flood, earthquake, war, nuclear accident and others specified in your policy. Check your policy for a complete listing of perils excluded.

Chart reprinted with the courtesy of the Insurance Information Institute, 110 William Street, New York, New York 10038

Comprehensive form (HO-5) covers all risks except those specifically stated in the policy. (See the chart on page 25 for a complete description.) The *Special form* (HO-3) provides Comprehensive (HO-5) coverage on your home and Broad protection (HO-2) on your personal belongings. This is the most popular choice among homeowners.

What if you do not live in a single family dwelling? Policies designed to fit your particular needs can be purchased as well. The *Contents Broad form* (HO-4), which is for tenants, protects against the same 18 perils as the Broad form (HO-2) up to a stated amount. However, because it covers only your personal effects and not the structure in which you live, it is less expensive.

Condo owners have a unique situation. Since most condo associations insure the common grounds and the buildings from the walls out, it is the owner who insures the interior. Laws do vary, however. *Condo Insurance* (HO-6) covers personal property (minus any depreciation) and any additions or alterations made to your individual unit up to a specified amount.

The typical policy for those with mobile homes provides coverage similar to that of the Broad form (HO-2) or the Special form (HO-3). Because mobile homes are more susceptible to wind damage than conventional homes, premiums may be higher.

Depending on where you live, you may need protection against those perils not included in your basic policy. For example, do you live in an area which is prone to flooding? If so, the Federal Insurance Administration of the U.S. Department of Housing and Development provides a low-cost flood insurance program. Check with your insurance agent to find out if it is offered in your community. Earthquake insurance is also obtainable and most often added to your standard homeowners policy.

Personal Liability Coverage

Suppose a neighbor falls down your stairs or you scratch a friend's coffee table. Are you responsible for the damages? You bet! For cases like these, your homeowners or tenants policy provides personal liability insurance. Also included are medical payments to others and supplemental coverage for any physical damage done to the property of another.

Personal liability covers any legal fees in the event of a lawsuit and pays for any damages up to a stated amount, which may be assessed against you or another family member. The minimum liability coverage is usually \$25,000, but larger amounts can be purchased. In addition, you may want to consider buying an umbrella policy, which picks up where your liability insurance leaves off. (See page 27 for more information.)

Medical payments coverage covers claims for minor injuries—up to \$500 per person—which may occur either on or off your property. Payments are made regardless of who is at fault.

Supplementary coverage protects you and your family against claims for minor damages done to someone else's personal property. A maximum payment of \$250 per accident is made, regardless of who is at fault, and even when no one is to blame.

Your Insurance Premium

The cost of homeowners insurance varies from one locale to another for a variety of reasons:

- The size and frequency of claims filed by policyholders during a given time period. Larger and more frequent claims, of course, raise the cost of insurance.
- The efficiency rating of your local fire department, your proximity to fire equipment and the nearest water supply. Rural areas tend to pay higher rates.



Other Types of Insurance

- The materials from which your home is constructed. For example, brick homes, because they are more fire resistant, have lower insurance rates than those made of wood.
- The number of perils for which you are insured. Policies covering a larger number of perils cost more.
- The replacement value of your home and the amount of coverage for which you are insured. For example, if your home is insured for \$90,000 you can expect to pay more than someone with a \$60,000 insurance policy.

To reduce the cost of your homeowners insurance, take the highest deductible you can afford. All policies have a basic \$100 deductible. Larger deductibles can result in substantial savings on the price of the policy. Smoke alarms and burglar alarms may also lower your costs.

Although insurance rates are closely monitored by state/provincial insurance departments, this does not mean that companies have to offer identical policies at the same price. Before you buy, shop around.

There are literally hundreds of other types of insurance plans available, most of which would not be of interest. Some kinds you should be aware of, however, are briefly discussed—umbrella liability, temporary health, credit life, credit accident and health insurance, rental car, cancer, flight and credit card insurance.

Umbrella liability insurance. Currently there is one liability suit being filed for every 13 adults in the U.S., and anyone with even a modest amount of assets is at risk of being sued. Unfortunately, with the increasing number of million-dollar awards being made, the conventional amount of liability coverage is no longer sufficient. Umbrella plans, considered one of the best buys in insurance, can increase your coverage to \$1 million or more.

Umbrella liability insurance was designed specifically to take over where homeowners and auto coverage end. You cannot obtain an umbrella policy, in fact, unless you have auto liability coverage of at least \$250,000 per person for bodily injury and \$500,000 per accident or a combined single-liability coverage of \$300,000. You must have a minimum of \$50,000 to \$100,000 in your homeowner's liability policy. Any claims against you would be met first by these policies; any additional amounts would be paid under the umbrella plan.

Temporary health insurance. Short-term, nonrenewable health insurance policies for 60, 90 and 120 days were

designed for those temporarily without coverage—recent college graduates who are job-hunting and new employees who must wait for company policies to take effect.

Stop-gap health insurance policies cover payments toward hospitalization, intensive care, surgery, doctors' in-hospital visits, some outpatient services, ambulance services and nursing home care. Select one that will handle the big medical bills; pay the small ones yourself. Premiums depend on the coverage, where you live and your family size.

Credit life insurance. This pays off the remaining balance on a loan if you die or become disabled. Although not required by law, some lenders in the U.S. require credit life insurance and a majority of borrowers purchase it.

Its cost depends on the size and term of the loan and the state you live in; each one sets a maximum rate. (In Canada the provincial governments do not directly regulate rates.) When credit life insurance is required, the cost of the premium must be included in the annual percentage rate (APR). When it is optional, the cost can be tacked onto the loan without affecting the APR.

If you have a choice, carefully consider the pros and cons of buying credit insurance. Some protection should be acquired, especially if you lack adequate life insurance. Otherwise your heirs may be faced with the hardship of paying off the loan.

Compare the premiums with those of a decreasing term policy for the amount of the loan. If the loan is small and for a

short term, credit insurance may be your best bet. This might also be the case if you are 50 or over, without enough life insurance and have problems getting more. Credit life insurance rates are the same for all ages, and you need not provide evidence of insurability. (These policies are not sold to consumers over 65, however.) If you are young and in good health, consider taking out your own term policy.

Credit accident and health insurance. This insurance will make the monthly payments on your loan if you are disabled due to illness or injury. It is frequently sold in conjunction with credit life. Some policies exclude preexisting medical conditions completely or for varying initial periods, so read the conditions and exclusions carefully.

There is usually a waiting period before benefits begin. The most common is 14 days, and it is usually retroactive to the first day of sickness or injury. Waiting periods do vary, however, and not all are retroactive. As a rule, the longer the waiting period, the lower the insurance cost.

Most policies will make your monthly payment for as long as you are disabled or until your loan is paid in full. Others will only make the payment for a stated number of months, regardless of how long you are sick. The shorter payment periods also help to reduce the cost of the coverage.

When choosing credit accident and health insurance, examine your own circumstances and look at the options offered by the creditor. Choose the ones which are affordable and fit your needs.

Cancer insurance. These policies are not recommended. While they pay part of your hospital costs, keep in mind that the average hospital stay for a cancer patient is two weeks or less. Secondly, ongoing treatment such as skilled nursing care at home is not usually covered.

Generally, cancer insurance policies turn out to duplicate coverage that policyholders already have. Most people would be better off if they increased their comprehensive health and major medical coverage which pays for all diseases, instead of buying limited coverage like this.

In no case should cancer policies be used as anything but supplements. They have in fact been banned in several states because they provide minimum economic benefits.

Rental car insurance. This is not insurance at all but a *collision damage waiver* (CDW). Actual collision insurance is already included in the car rental fee. The renter is responsible for a deductible, however, which currently runs \$2,500 or more. If you take out a CDW, you will not be liable for the deductible or for any damages not covered by the insurance.

In most cases the waiver is not needed. You probably are sufficiently protected already, at least in the U.S.,

by your own auto liability coverage. If you are renting a car for business purposes, in fact, you may be covered under your employer's policy. Call your agent or check with your employer if you are unsure about this.

Flight insurance. Flight insurance premiums are far more expensive than those for general life coverage, despite the tremendous odds against your being killed in an airline crash.

Short-term flight insurance may seem like a bargain, but comprehensive life and medical insurance is a much better deal. Furthermore, you often get this protection free when you use certain credit cards to charge airline tickets.

Credit card insurance. Millions of cards disappear each year and these policies, very reasonably priced, will protect you against their fraudulent use. You furnish the insurer with the names and numbers of your credit, debit and automatic teller machine cards (ATMs) when you take out the policy. Call the company on its toll-free line as soon as you discover their loss and it will instantly notify the issuers, arrange for replacement cards with new account numbers, and wire you cash if you are stranded.

This kind of insurance can definitely be a convenience, especially if you travel a lot. It may even be a necessity if you have an ATM card. Although the maximum liability for its fraudulent use is \$50, if you notify the issuer within two business days of its loss, you are liable for up to \$500 if you fail to do so.

Shopping for Insurance

If you are planning to buy insurance, in most cases you will need to select a company and an agent. Because of the importance of these decisions, this section will focus on that selection process.

Of course if you take advantage of the group life and medical plans offered by many employers, this task is unnecessary since the decisions are already made for you. The same is true when you buy life insurance through a fraternal or professional organization or government agency.*

*Residents of Massachusetts, New York and Connecticut can also buy life insurance through mutual savings banks.

Selecting an Insurance Company

The insurance company you choose should be financially strong with a solid management team. It should also offer affordable products and quality service. Whether you choose a stock or a mutual insurance company, however, does not really make much difference. (The former is owned by stockholders and the latter by policyholders.)

Where can you go for more information? Most major libraries carry *Best Insurance Reports*, published by A.M. Best Company, which rate insurance companies on the basis of their financial strength. For information on the company's performance, record of earnings and management objectives, request an annual report from those insurance firms which you are considering.

Product-testing magazines, which rate various consumer products and services, may also have some helpful information. And finally, check to see if any complaints have been filed with the Better Business Bureau or your state insurance commissioner/provincial superintendent of insurance.

Finding an Insurance Agent

An insurance agent serves as a liaison between you and the company, designs insurance packages to fit your needs and assists you in settling insurance claims. He or she should be knowledgeable in the field and someone with whom you feel comfortable.

There are three different kinds of insurance representatives—an *exclusive agent* who works for just one company, an *independent agent* who



How to Handle a Claim

represents more than one company, and a *broker* who sells insurance as well as other financial products. All three work on commission and must be licensed by your state or province.

To find an agent, begin by querying friends, family members, fellow employees or your banker, lawyer or accountant. Can they recommend someone? Next, conduct informal interviews. Some questions to ask include:

- Which company do you represent? Which one is the primary company, if there is more than one?
- How long have you been selling insurance?
- Do you work full time? If so, the agent may be more committed to serving you than a part-timer would be.
- What credentials do you have? Designations such as CPCU (Chartered Property Casualty Underwriter), CLU (Chartered Life Underwriter), CFP (Certified Financial Planner), or ChFC (Chartered Financial Consultant), signify that the agent has completed a rigorous course of study.

Mail-Order Insurance

One of the most popular mail-order purchases made today is insurance. Before you buy some, however, a word of caution is in order. Find out if the company is licensed to sell insurance in your area by calling your state/provincial insurance department. Also check to see if any complaints have been filed. Read the provisions carefully, including the fine print! How large is the death benefit relative to cost? Do not be fooled by scare tactics or misled by "pennies a day" offers. Total up the annual cost of the insurance policy to find out if it is a real bargain.

There is more to claim handling than filling out a form. To avoid costly, time-consuming mistakes and be more satisfied with your claim settlement, take certain preliminary steps *now*, before trouble strikes.

- Become thoroughly familiar with all your insurance policies and determine exactly what is and is not covered.
- Ask your insurance agent or company representative to explain any parts of a policy that you do not understand.
- Know what your deductibles are.
- Keep all receipts relating to a claim—medical, homeowners or auto.
- Keep a folder of claim forms handy.
- Be aware of the amounts of liability and medical payment coverage you have available for yourself and others.

Automobile Mishaps

The claim-filing process begins with the accident:

- Call the police immediately if anyone is injured or if there is more than minor damage.
- Get help for the injured.
- Protect your car by putting out flares, getting it as far off the road as possible, and calling a tow truck, if necessary.
- Note the names, addresses, phone numbers, drivers' license and license plate numbers, insurance IDs and car registrations of all the drivers involved. Also obtain the names, addresses and phone numbers of witnesses and the names and badge numbers of police officers.
- Note the time and weather conditions.
- Provide the police with the information they need for the accident report.
- Make a sketch of the accident situation, showing the position of the cars before, during and after the collision.
- Find out where to obtain a copy of the police report, which you may need to support the claim you make to the insurance company.
- If you run into an object or unattended vehicle and are unable to find the owner, leave a note that contains your name, address and phone number.
- Pay for minor damages that you cause to your own car. This will protect your accident-free rating.

When filing the claim:

- Phone your insurance representative right away, even if you are far from home and not responsible for the accident. He or she will tell you how to proceed and the documents you will be needing.
- Follow instructions regarding the repair-cost estimates.
- Cooperate with the company in every way, and immediately turn over to it any copies of legal papers you receive in connection with the loss. Always provide full and truthful information.
- Submit records of any expenses incurred as a result of the accident, in case your company requires a "proof of loss" form, and if your policy provides for reimbursement.
- Submit copies of all paperwork that concerns the accident.
- Report all accidents to the insurance company, even if you intend to pay the bills yourself. An accident report will not endanger your insurance classification, but it could protect you if the other driver decided to sue at some future date.

Homeowners Policy Claims

There are three basic reasons for filing a claim under a homeowners policy—when you have suffered a loss, when you are liable for losses suffered by someone else, and when you or a family member have damaged another's property.

When the Loss is Yours

- Report any burglary or theft to the police.
- Obtain a copy of the police report.
- Phone your agent to find out if you are covered and what your next steps should be.
- Make any essential repairs and take other steps to protect your property from further damage—i.e., repair locks, board up windows. Send the receipts to your insurer for reimbursement.

- Obtain estimates of necessary repairs of structural damage.
- List any lost, damaged or stolen articles. Include a description of each, its present value and your estimate of your dollar loss, plus any receipts that will substantiate the figures.
- Save your receipts for any living expenses you incur while your home is being repaired so you can be reimbursed for them.

Liability Claims

- Report any incidents to your insurance representative quickly if someone is injured on your property. Follow up the call with a written report, explaining what happened and when, where and to whom. Include names of witnesses and a truthful account of the situation.

- Avoid making commitments to the injured person, since the insurer is not liable for any independent arrangements you make (first-aid treatment excepted).
- Copy all documents and forward the originals to the insurance company immediately. Keep the copies.
- If a claim is to be made for medical payments reimbursement, written proof of loss must be submitted either by or on behalf of the injured person.

Damages to Someone Else's Property

- Report the incident immediately to your agent or company representative.
- Make a sworn statement about the occurrence to your agent or insurance company as soon as possible, even though you have up to 60 days to do so. There is a time limit on resolving claims.
- Be prepared to have an adjuster examine the damage.



Handling Insurance Complaints

Now and again disagreements between you and your insurance company may occur. If so, first discuss the problem with your agent. Most disputes can be resolved quickly and satisfactorily this way. If necessary, write the company directly. Ask your agent for the name and address of the person to contact.

When writing, briefly summarize the problem and enclose copies of all related documents. Be sure to include your name, address, phone number and policy number. Then make a copy of your letter for future reference.

If the problem remains unresolved, there are several avenues open to you. Begin by contacting your state/provincial department of insurance. They often act as intermediaries in settling disputes. The Insurance Information Institute also handles questions and complaints regarding property and casualty insurance. It can be reached toll-free at 800-221-4954.

For those disputes of a more serious nature, such as one involving a claim settlement, arbitration may be the answer. Here is how it works. If you and the company cannot reach an agreement, each selects and pays for

the services of an arbitrator. The two arbitrators then hire a third outside party, whose fee is split between you and the insurance company. The settlement that any two arbitrators agree on is binding.

Keep in mind that the majority of insurance complaints can be resolved without the assistance of outside arbitrators. In addition, by dealing only with reputable insurance firms, you may avoid future problems. Not only do they have your best interests at heart, they also provide quality products and reliable service at competitive prices.

Glossary of Insurance Terms

Adjustable life insurance. A type of whole life insurance which can be altered to fit changes in the insured's lifestyle.

Agent. A representative of an insurance company who sells insurance, sometimes called an "underwriter."

Annuity. An insurance contract which pays a stated amount of income to the insured at a specific age, usually during the retirement years.

Assigned risk plan. A cooperative plan whereby each insurance company covers a few customers who are more likely to incur losses. Thus insurance coverage is available to those who present a very high risk.

Beneficiary. The person or persons who receive the insurance payment after the death of the insured.

Best Insurance Reports. Publications by the A.M. Best Company which rate insurance companies on the basis of their financial strength.

Cash value (cash surrender value). The amount of money available in cash if the insured voluntarily cancels certain kinds of policies.

Claim. Notification from the policyholder to the insurance company that a payment is due under the provisions of the insurance policy.

Coinsurance. The joint sharing of insurance risk, whereby the insured usually pays 20 percent of the claim and the insurer pays 80 percent.

Coordination of benefits. When two medical insurance policies are in force and a claim is filed.

Customary and reasonable. The amount health insurance companies will pay for specific medical procedures.

Deductible. The amount of out-of-pocket expenses the insured agrees to pay before the benefits begin.

Disability income insurance. A type of insurance which pays part of your income if you are unable to work due to injury or illness.

Double indemnity. A provision added to a life insurance policy which doubles the amount paid to the beneficiary should the insured's death be accidental.

Due date. The date on which the premium is due.

Endorsement. See "rider."

Exclusions. Properties, losses and perils which are not covered under the insurance policy.

Face value. The amount paid when the insured dies or when the policy matures.

Facility plan. See "assigned risk" plan.

Financial responsibility laws. State/provincial laws which require drivers to show proof of ability to pay up to a certain amount for losses in case of accident.

Floater. A policy or endorsement added to a homeowners policy which provides additional insurance coverage for certain valuables such as jewelry and furs.

Grace period. The amount of time immediately following the premium due date, during which payment can still be made to keep the policy in force.

Health Maintenance Organization (HMO). A prepaid health care plan comprised of a group of hospitals, doctors and other health-care personnel who have joined together to provide members with prepaid medical care.

Insured. The person whose life, home, auto, etc., is insured.

Lapse. The cancellation of a policy when premiums have not been paid following any grace period.

No-fault insurance. A system of auto insurance in which the drivers involved in an accident and their passengers are automatically reimbursed by their own insurance companies regardless of fault.

Personal liability. Injury to someone or damage to their property for which you, another family member or household pet is responsible.

Policyholder. The person who owns the policy, usually the insured.

Preexisting condition. An illness or injury that existed before the policy was purchased.

Preferred Provider Organization (PPO). A prepaid health care plan comprised of a group of hospitals and doctors who offer their services at a discount to members.

Premium. The amount a policyholder pays to keep an insurance policy in force.

Reinstatement. The restoring of a lapsed policy by paying the past-due premiums in full, plus interest.

Replacement value. The cost or value of an item if it were purchased today.

Rider. A written attachment to an insurance policy which alters the original policy to meet certain conditions, such as a double indemnity clause.

Settlement option. One of the many ways the insured or beneficiary can collect the insurance benefits.

Stop-loss protection. A clause that limits the coinsurance expenses to a specific dollar amount, after which the policy pays 100 percent of the bills.

Surrender value. See "cash value."

Term insurance. A type of life insurance which provides coverage for a specific length of time—one, five, ten or twenty years.

Umbrella liability. An insurance policy which provides additional liability protection beyond that stated in a homeowners or auto insurance policy.

Underinsured motorist coverage. Insurance coverage which pays the insured for damages in the event that the motorist responsible is inadequately insured.

Underwriter. See "agent."

Uninsured motorist coverage. Insurance coverage which pays the insured for damages caused by another motorist who has no auto insurance.

Universal life insurance. A flexible form of whole life insurance in which the cash value reflects the interest earned on short-term investments.

Variable universal life insurance. A flexible form of whole life insurance in which the cash value reflects the investment choices of the insured. Usually there is a minimum guaranteed death benefit.

Waiting (elimination) period. The time that must elapse before benefits begin.

Waiver. An attachment to a policy that excludes certain illnesses or disabilities which would otherwise be covered.

Waiver of premium. A benefit found in some policies which exempts the policyholder from paying premiums while he or she is disabled.

Whole life insurance. A type of life insurance which provides both protection and savings.

Suggested Resources

Organizations

Many trade associations, businesses and government agencies provide information to consumers and educators upon written request. Some of these are listed below.

United States

American Council of Life Insurance
1850 K Street, N.W.
Washington, D.C. 20006
800/423-8000

Blue Cross and Blue Shield Association
676 North St. Clair Street
Chicago, Illinois 60611

Health Insurance Association of America
1850 K Street, N.W.
Washington, D.C. 20006
800/423-8000

Insurance Information Institute
110 William Street
New York, New York 10038
800/221-4954

National Association of Life Underwriters
1922 F Street, N.W.
Washington, D.C. 20006

U.S. Department of Health and Human Services
Health Care Financing Administration
East High Rise Building
6325 Security Boulevard
Baltimore, Maryland 21207

Canada

Canadian Life and Health Insurance Association, Inc.
20 Queen Street West, Suite 2500
Toronto, Ontario M5H 3S2

Health and Welfare Canada
Health Services and Promotion Branch
Tunney's Pasture
Jeanne Mance Building, Room 626
Ottawa, Ontario K1A 1B4

Insurance Bureau of Canada
181 University Avenue, 13th Floor
Toronto, Ontario M5H 3M7

Life Underwriters Association of Canada
41 Lesmill Road
Don Mills, Ontario M3B 2T3

Ministry of Consumer and Commercial Relations
Consumer Information Centre
555 Yonge Street, Main Floor
Toronto, Ontario M7A 2H6

Books, Pamphlets and Periodicals

There are numerous publications available which cover nearly every aspect of insurance. Some of these are listed below for those wishing to study this subject in greater depth. Addresses for selected publications are given under *Organizations*.

United States

Auto Insurance Basics; How to File an Insurance Claim; Insurance for the Car; Insurance for the Home; Taking Inventory; Tenants Insurance Basics. Insurance Information Institute. Free.

Buyer's Guide to Insurance. National Insurance Consumer Organization.
121 N. Payne Street, Alexandria, Virginia 22314. \$2.00 with #10 self-addressed, stamped envelope.

A Consumer's Guide to Life Insurance; Understanding Your Life Insurance; What You Should Know About Annuities. American Council of Life Insurance. Single copies free.

How to Protect What's Yours. Golonka, Nancy. Insurance Information Institute. \$1.95.

If You Become Disabled; Medicaid/Medicare; Health Maintenance Organizations and Medicare; Guide To Health Insurance for People with Medicare; A Brief Explanation of Medicare; Medicare and Employer Health Plans; Medicare and Prepayment Plans. U.S. Department of Health and Human Services. Free.

Life Insurance: A Consumer's Handbook. Belth, Joseph M. Indiana University Press, Indiana University, Bloomington, Indiana 47405. \$12.50.

Life Insurance From the Buyer's Point of View. Welker, Ernest. American Institute for Economic Research, Great Barrington, Massachusetts 01230. \$5.00.

What You Should Know About Disability Insurance. Health Insurance Association of America. Single copies free.

Canada

The Basic Consumer Guide to Insurance. Ministry of Consumer and Commercial Relations. Free.

Car Insurance Explained; A Buyer's Guide to Automobile Insurance; The Economics of Driving; Facts of the general insurance industry in Canada; Home Insurance Explained. Insurance Bureau of Canada. Free.

A Guide to Buying Life Insurance; Life and Health: A Matter of Risk; You and Your Group; Where Will The Money Come From—If You're Disabled? Canadian Life and Health Insurance Association, Inc. Free.

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YOUR AUTOMOBILE DOLLAR discusses buying, maintaining and operating a car. Each\$1.00

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To order or to inquire about any of the above materials, write to:

Money Management Institute

HOUSEHOLD FINANCIAL SERVICES
2700 Sanders Road, Prospect Heights, IL 60070

HOUSEHOLD FINANCIAL SERVICES OF CANADA
85 Bloor Street East, Toronto, Ontario M4W 1B4

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